



Will Canada Nationalize Air Canada (TSX:AC)? Here's the Truth

Description

Air Canada ([TSX:AC](#)) stock is in the dumps. At the start of 2020, shares were priced above \$50. Right now, they're at \$15.

The COVID-19 pandemic has crushed airline traffic. Several carriers have already gone bankrupt.

For now, Air Canada survives, but the losses are mounting. There's even speculation that the Canadian government will *nationalize* the company.

Is government intervention on the horizon?

Here's the math

Companies don't usually get nationalized. When they do, it's only for two reasons: strategic or financial.

Several countries have nationalized their oil industries to gain more power over their energy production. This occurs frequently in areas rich in oil. The idea has even [gained traction](#) in recent years to stem the impacts of climate change.

There's little reason for the government to nationalize Air Canada for strategic reasons like this. However, there is an impetus behind a *financial* nationalization.

During the financial crisis of 2008, for example, some countries effectively nationalized big banks in order to stabilize the economy. In some instances, shareholders received a small payout. In others, they lost everything.

The odds that Air Canada will be nationalized for financial reasons has skyrocketed in recent weeks. The math makes the potential clear.

Over the last six months, the company lost roughly \$3 billion. That's on pace for a \$6 billion annual loss. Compare that to the company's \$4.8 billion market cap, and you start to understand the urgency.

Air Canada needs more money fast. It has perhaps 18 months of financial runway left. The market has proven willing to stem the financial bleeding, but that won't last forever. As its debt load soars, and its ability to secure new loans with existing assets runs dry, the lender of last resort will likely be the government.

Will we nationalize Air Canada?

Last week, we got our clearest indication yet that nationalization is on the table.

"The Canadian government isn't ruling out the possibility of taking a stake in Canadian airlines, like WestJet and Air Canada, as ministers consider how to help the sector in its struggles amid the COVID-19 pandemic," [reported](#) CTV. "Intergovernmental Affairs Minister Dominic Leblanc confirmed the possibility during an interview."

"I know, my colleagues, [Transport Minister] Marc Garneau, and [Finance Minister] Chrystia Freeland, are looking at a whole series of options of what government support might look like for the sector," Leblanc said.

His closing remarks suggest that we may have an answer quickly.

"Those discussions will necessarily happen. And I hope quite quickly," he concluded.

No one should be surprised that Air Canada faces nationalization. Despite its stable share price over the last few months, the company is hemorrhaging cash. Unless the pandemic ends within six months, there's little reason to believe the airline will [survive](#).

Some believe a financial bailout is all that will occur, but after racking up billions in private market debt, there's not much Air Canada can offer the government besides a direct equity stake.

The math is beyond doubt. If Canada gets involved, expect it to come out as an equity owner.

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Date

2025/08/26

Date Created

2020/10/25

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